J. STERN & CO.
The Value of Long-Term investing

Monthly Commentary

DON'T BELIEVE US, BELIEVE WARREN BUFFETT…

The Berkshire Hathaway annual meeting in Omaha, Nebraska, the Woodstock of Capitalism, is the one 'industry convention' we attend. Berkshire's business comprise almost all of US economic activity so it provides an important perspective on how things are going. Especially given the chaotic political issues we face in the US, Europe and elsewhere it was reassuring to hear that many if not most if them are doing very well and are hiring and investing in their businesses. It was also uplifting and inspirational to hear Warren Buffett and Charlie Munger talking about their investment convictions and how to learn and grow as investors and people.

The two of them have built Berkshire into one of the most valuable companies in the world. Part of their success is due to the fact that they keep on adapting what they do to the opportunities and circumstances they encounter.

One of our insights over the past ten years is that digital transformation is a key driver of economic growth and innovation, and a tremendous opportunity to participate in the value created by its most successful leading businesses. We have argued that they their competitive advantages and moats are every bit as strong as those of other more traditional businesses.

For many years Buffett and Munger kept these stocks in famous box on Warren's desk that is labelled 'too hard'. Berkshire's investment managers then bought an initial position in Apple, which has grown into Berkshire's single largest equity positions. When Buffett announced the stake last year, we wrote in the Financial Times that he had thought the wrong company and that Apple would be a value trap over time compared to the great platform companies like Alphabet, Amazon or Facebook.

This year Buffett announced that Berkshire had bought a stake in Amazon. He distanced himself by saying it was not him but either Todd or Ted, the professional investors working alongside Buffett to manage Berkshire's portfolio. They clearly see significant upside in Amazon as we have for years. That is how he started to invest in Apple. Berkshire and Amazon are both singular businesses that are much more similar than most people think, and we would not be surprised at all to see Alphabet joining Amazon and both of them becoming a core holding for Berkshire in due course.

In this month's investment insight, we offer more of our reflections on this year's Berkshire Hathaway annual meeting and why Berkshire and Amazon are so similar. You can click on the attachment or follow the link here.

World Stars Global Equity Portfolio

Our World Stars global equity strategy continued its positive trajectory during April, closing the month up 3.3% in US dollar terms. It is now up 16.1% year-to-date.

Performance was led by *Facebook*, which reported another strong set of results as the company continued to add active users internationally and saw solid advertising revenue growth. Of note, the company disclosed that its family of apps, Facebook, Instagram, WhatsApp and Messenger, have around 2.7bn monthly active users, highlighting the breadth of the business. The company also announced plans for a more privacy-focused platform. Given the data and privacy issues affecting Facebook, it is encouraging to see that not only is it adapting its

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policies to reflect how data is managed and protected on core Facebook, but it is also building new services to accommodate these principles.

Performance during the month was also supported by strength in two of our industrials holdings, *United Technologies* and *Honeywell*, both of which reported robust organic growth rates led by their aerospace businesses. In addition, United Technologies confirmed the timeline towards its separation into three units, which we believe will prove a powerful catalyst to unlocking further shareholder value.

Finally, leading global lens and frame manufacturer *EssilorLuxxotica* recovered from its recent lows as investors looked beyond the ongoing leadership battle between the founder of legacy Luxottica, Leonardo Del Vecchio, and Essilor's former CEO and vice chairman of the combined group, Hubert Sagnieres. Investors focused once again on the solid underlying business momentum in both Europe and emerging markets as well as the undiminished ability of the company to realise both revenue and cost synergies as a result of the merger. We continue to closely monitor the ongoing dispute but believe that the current valuation reflects the associated risks.

On the weaker side, shares in *British American Tobacco* slipped on ongoing weakness in the US tobacco market, as alternative product player JUUL continues to take share. Nonetheless, we believe the current share price levels do not reflect the strength of the company's cash flow or the potential of BAT's own alternative product portfolio, including flagship brands Vype and glo.

Multi-Asset Income Portfolio

For the month of April our portfolio continued its positive trend for the year, with an overall return of 1.4% in US dollar terms, taking the performance to a positive 7.1% year-to-date. The portfolio currently has an annualised return of 7% since inception, despite renewed volatility in some emerging markets such as Argentina and Turkey, towards the end of the month.

The equity portion was again the main driver for the overall performance, up a remarkable 4.3% in US dollar terms, and up 18.9% since the start of the year. Many holdings benefited from solid earnings releases and a supportive combination of better than expected US economic growth but moderate underlying inflation.

Credit participated to the positive markets' mood, recovering from last month's weakness with a positive contribution of 0.7% in US dollar terms. The portfolio is now up 4.8% for the year. Clearly our exposure to Argentina weighed negatively on the performance but credit spreads compression across the asset class provided the necessary backing.

Global politics continued to dominate the news flow and break the relative calm of the markets. The US trade sanctions against Iran and the ongoing trade war between the US and China could upset the current equilibrium. However, although volatility is likely to increase after an overall good performance from risk assets year-to-date, it remains the case that a significant number of investors have not participated and have liquidity ready to work given the right opportunity.

No further adjustments were made to the portfolio following last month's slight changes. Solid cash generation remains our main focus, both in terms of the underlying corporate activity of our holdings, but also for our investments and their cash-on-cash generation. So far, our portfolio has generated 1.5% of income, well on course for its target for the whole year.

Emerging Market Bond Portfolio

The month of April was largely uneventful from a global macro point of view, with the dollar and US Treasuries rangebound and the front end of the US dollar yield curve remaining inverted. Volatility in Emerging Market debt came from Argentina and Turkey, both selling off for idiosyncratic reasons. Overall our Emerging Market Bond portfolio ended April up +0.7%, bringing the year-to-date performance up to 6.2%, net of fees.

Fixed income is performing well thanks to the benign interest environment and significant liquidity provided by central banks. This pattern should continue, but volatility spikes such as those seen in December can reoccur, as evidenced by the China-US trade war.

Our top performer this month was *Petra Diamonds*, which released Q3 FY19 results showing a reduction in net debt and the first positive FCF in the last 3 years. *Pemex* bonds continued to rally, adding 3.4% in April taking them up to 10.8% year-to-date. Access to Mexico's budgetary Stabilization Funds for USD 5 billion alleviated liquidity issues and demonstrated government's support.

On the negative side, our Argentina credits, *CLISA* and *YPF*, were both impacted by initial polls for the upcoming Presidential elections at the end of October which show Christina Kirchner winning. There is no doubt that these elections will be polarised and tightly fought, but the campaign has yet to start, and most of the electorate have yet to turn their minds to the vote. Whilst President Macri needs at least another year or two to continue the fiscal adjustment needed to stabilise the debt, a Kircher victory will inevitably mean policy discontinuity. Having said that, we have already identified solid credit stories and are prepared to be opportunistic during the next bout of volatility.

We appreciate your interest as always and look forward to hearing your questions or comments.

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